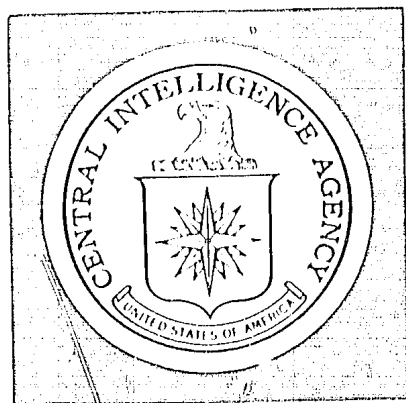


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Soviet And East European Petroleum Trade
With The Free World In 1969*

~~Secret~~

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
April 1970

INTELLIGENCE MEMORANDUM

Soviet And East European Petroleum Trade
With The Free World In 1969

Introduction

This memorandum summarizes the trade in petroleum between the Communist countries* and the Free World in 1969. It also examines the unusual developments in such trade, including the sizable increase in oil imports from the Free World, and speculates on the probable extent of oil trade in 1970.

Origin and Composition of Oil Exports

1. The USSR and Eastern Europe exported about 50 million metric tons of petroleum to the Free World in 1969, a decline of 2.6 million tons from the level in 1968 (see the chart). All of this decline was accounted for by Soviet oil exports which were down from about 45 million tons in 1968 to about 42 million tons in 1969 -- 25 million tons of crude oil and 17 million tons of petroleum products. Exports from Eastern Europe rose slightly in 1969 to a total of 8 million tons (all petroleum products). Almost half of the exports from Eastern Europe were from Romania.**

* References to Communist countries in the context of oil trade refer to the USSR and the Communist countries of Eastern Europe -- Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania.

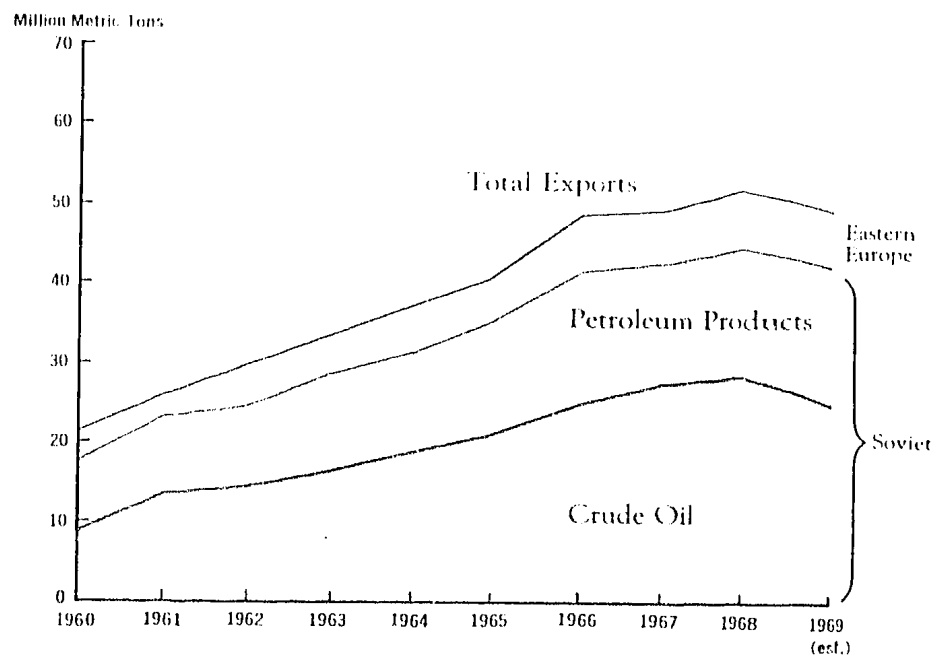
** Exports from Czechoslovakia were 1.4 million tons; Poland 1.4 million tons; Hungary 900,000 tons; East Germany 500,000 tons; and Bulgaria 100,000 tons.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research.

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Exports of Petroleum from Communist Countries to the Free World



2. The estimated total value of Communist petroleum sales to the Free World in 1969 was almost \$700 million. Hard currency sales made up about \$340 million of total Soviet sales of \$575 million, and Eastern Europe earned about \$60 million in hard currencies on total sales of \$120 million.

3. In 1969, 90% of the oil exports to the Free World were delivered in tankers, principally from ports on the Black Sea (see Table 1). About 60% of the tanker deliveries were carried in Communist-flag vessels.

Destination of Oil Exports

4. Communist oil exports to Western Europe in 1969 declined to 40.6 million tons, about 3 million tons below the 1968 level. These exports accounted for more than 80% of Communist oil exports to the Free World and represented about 7% of Western Europe's demand, compared with about 9% in 1968. The principal recipients were Italy, Finland, West Germany, and Sweden.

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Table 1

Methods of Delivery and Ports of Origin
of Oil Exported by Communist Countries
to the Free World
1969

<u>Deliveries</u>	<u>Million Metric Tons</u>			<u>Percent of Total</u>
	<u>USSR</u>	<u>Eastern Europe</u>	<u>Total</u>	
By tanker	<u>40.0</u>	<u>4.8</u>	<u>44.8</u>	<u>90</u>
Black Sea ports	24.5	3.8	28.3	57
Baltic Sea ports	14.8	1.0	15.8	32
Far Eastern ports	0.7	--	0.7	1
By rail and barge	<u>1.8</u>	<u>3.2</u>	<u>5.0</u>	<u>10</u>
<i>Total</i>	<i>41.8</i>	<i>8.0</i>	<i>49.8</i>	<i>100</i>

5. Outside of Western Europe, the most significant importers were Japan, Egypt, and Greece. Both the United States* and Canada imported token shipments of oil from the USSR for the first time. The United States also continued to import small quantities of low-sulfur fuel oil from Romania. The Appendix shows the Free World destinations of oil exports from Communist countries in 1969.

Soviet Exports to the Free World

6. Soviet sales to developed countries in 1969 declined for the first time since 1955. Exports of 36.4 million tons were more than 3 million tons less than in 1968 (see Table 2). Lower shipments to Italy, West Germany, and Japan accounted for most of the decrease. Soviet shipments to less developed countries in 1969, however, increased

* A total of 70,000 tons of residual fuel oil arrived in the New York area in late 1969, consigned to the Joc Oil Company, an international oil broker.

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slightly, following several years of decline. The increase occurred principally in deliveries to Egypt.* (On a net basis, Soviet exports to Egypt were down, as the USSR acquired more than 1 million tons of Egyptian crude oil for shipment to Cuba and Bulgaria from the El Morgan oilfield in the Gulf of Suez.)

Table 2

Soviet Oil Exports to the Free World

	Million Metric Tons				
Importing Area	1965	1966	1967	1968	1969
Developed countries	<u>26.1</u>	<u>32.8</u>	<u>37.2</u>	<u>39.7</u>	<u>36.4</u>
Of which:					
Western Europe	22.2	28.7	33.9	36.9	34.0
Japan	3.9	4.1	3.3	2.8	2.4
Less developed countries	<u>9.4</u>	<u>8.6</u>	<u>6.3</u>	<u>5.0</u>	<u>5.4</u>
Total <u>a/</u>	35.5	41.3	43.5	44.7	41.8

a. Because of rounding, components may not add to totals shown.

* Egypt is a net oil exporter. As a result of the loss of the Suez refineries through Israeli bombing, however, Egypt lacks sufficient refinery capacity and must import petroleum products from the USSR (and elsewhere) to meet its domestic needs. Moreover, Egyptian sources of crude oil at the Mediterranean are insufficient to operate the refinery at Alexandria, and crude oil also is imported from the USSR. Egypt could transport its own crude oil from the Gulf of Suez around Africa to Alexandria but apparently prefers to export that oil and import supplemental supplies at Alexandria.

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7. Soviet oil exports to markets east of Suez, continuing to show some effects of the Canal closure, declined for the third successive year (see Table 3). Exports to Japan, the largest Soviet market in the area, probably would have undergone an even greater decline in 1969, were it not for the oil made available through east-west oil exchanges.* Higher transport costs caused a complete suspension of exports of Soviet petroleum products to Ceylon in 1969. These high costs probably prohibited the USSR from making a competitive bid to supply crude oil to Ceylon's new refinery. The contract was awarded instead to a consortium of Shell Oil Company and British Petroleum.

Table 3

Soviet Petroleum Trade
with Customers East of Suez

Thousand Metric Tons					
<u>Year</u>	<u>Japan</u>	<u>India</u>	<u>Ceylon</u>	<u>Burma</u>	<u>Total</u>
1966	4,149.7	1,213.7	644.6	214.8	6,222.8
1967	3,275.6	473.5	564.9	79.0	4,393.0
1968	2,764.2 <u>a/</u>	432.4	177.4	9.6	3,383.6
1969	2,350 <u>a/</u>	400	0	0	2,750

a. Including 740,000 tons in 1968 and 1 million tons in 1969 received through east-west exchanges.

** Under an arrangement inaugurated in late 1967 to overcome the transport problems resulting from the Canal closure, non-US western oil companies make oil available to the USSR at the Persian Gulf for delivery to Soviet markets east of Suez. In exchange, the USSR provides oil to those companies at the Black Sea for their markets in Western Europe.*

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Soviet Oil Exports to Other Communist Countries

8. Soviet shipments to other Communist countries in 1969 increased about 3 million tons over 1968, offsetting the decline in exports to the Free World. A breakdown of total Soviet oil exports is shown in Table 4.

Table 4

Soviet Oil Exports

Destination	Million Metric Tons				
	1965	1966	1967	1968	1969
<i>Total a/</i>	64.4	73.6	79.0	86.2	86.3
Free World	35.5	41.3	43.5	44.7	41.8
Communist countries	28.9	32.2	35.4	41.5	44.5
Eastern Europe	22.4	25.3	27.7	32.4	35.4

a. Because of rounding, components may not add to totals shown.

Oil Procured from the Free World

9. In 1969 the Communist countries procured more than 4 million tons of crude oil from Free World countries in North Africa and the Middle East (see Table 5). This was about 3 million tons more than in 1968. Without this oil, exports from Eastern Europe to the Free World would not have increased and exports from the USSR might have declined further.

10. Soviet oil procurements were used exclusively to meet export commitments and indicate that demand for oil in the USSR and other Communist countries probably exceeded the growth in Communist oil production in 1969. The increase in imports from the Free World by Bulgaria and East Germany is consistent with Soviet advice to East European countries to satisfy part of their growth in oil demand from Free World sources.

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Table 5

Communist Imports of Crude Oil
from North Africa and the Middle East
1969

Thousand Metric Tons					
From	To				Total
	USSR	Bulgaria	East Germany	Romania	
Algeria	500 <u>a/</u>	450	--	--	950
Egypt	1,150 <u>b/</u>	--	500	--	1,650
Iran	--	250	--	750	1,000
Libya	--	--	--	550	550
Syria	--	100	--	--	100
Total	1,650	800	500	1,300	4,250

a. Most of the Algerian oil was delivered, on Soviet account, to Spain and some probably to Bulgaria and customers in West Africa.

b. About 750,000 tons of the Egyptian oil was delivered, on Soviet account, to Bulgaria and the remainder to Cuba.

Prospects for Increased Communist Imports

11. In the next few years the Communist countries probably will increase significantly their imports of Free World oil as a result of a recent series of credit and trade agreements. Because Communist countries are unlikely to purchase oil with hard currency, the volume of oil imports will be limited by the amount of goods and services that Free World oil producers are willing to accept in barter. The following is a discussion of credit and trade agreements between Free World and Communist countries involving petroleum.

USSR

12. The USSR has contracted to receive 500,000 tons of crude oil from Algeria annually through 1975 in exchange for manufactured goods. Moreover,

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the USSR signed credit and trade agreements with Iraq in 1969 that probably will result in Soviet access to some oil from the North Rumaila field in Iraq, which is not yet producing but where output may reach an annual rate of 5 million tons in 1973. In addition, the Soviet-Egyptian trade agreement for 1970 provides for the export of Soviet petroleum to Alexandria and the import of 2 million tons of Egyptian crude oil from the El Morgan field. El Morgan oil probably will continue to be used for Soviet markets in Cuba, Bulgaria, and perhaps elsewhere. This exchange probably will last at least as long as the Canal remains closed and Egypt's oil economy suffers from domestic imbalances and dislocations.

Eastern Europe

13. Romania may import as much as 3 million tons of crude oil from the Free World in 1970, and between 5 million and 6 million tons annually by the end of 1975. Transport problems probably were responsible for restricting Romanian imports of Iranian crude oil in 1969. About 250,000 tons of Iranian crude were shipped to Romania via the Cape of Good Hope, and 500,000 tons were transferred from the Red Sea to the Mediterranean through the old trans-Israel pipeline (this 500,000 tons was the maximum capacity of the line in excess of Israel's own needs). The new trans-Israel pipeline, now in operation with an initial annual capacity of 20 million tons, will provide Romania with an opportunity to take substantially more Iranian crude. The present agreement calls for Romania to import a total of 6 million to 7 million tons of Iranian oil during the next four years (1970-73).

14. A barter agreement between Romania and Saudi Arabia authorized the transfer of between 9 million and 12 million tons of Arabian oil during 1968-72. After the delivery of 350,000 tons in 1968, shipments were suspended, pending a decision by Saudi Arabia on the use of Romanian credits. Agreement has been reached on the use of part of these credits, and deliveries of Arabian oil are scheduled to total about 700,000 tons during the next two years.

15. No details are available on the arrangements which provide for the Romanian import of oil from private companies in Libya. These imports were first

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noted in 1968 and are continuing in 1970. An east-west oil exchange may be the basis for this trade. Romania also is exploring the possibility of a trade agreement with Venezuela. A trade delegation late in 1969 indicated Romania's interest in obtaining a total of 4 million tons of Venezuelan crude during 1971-75. A formal agreement has not yet been concluded.

16. East Germany has imported Egyptian oil for several years under a series of trade agreements. The current agreement provides for the import of more than 1 million tons of Egyptian crude oil in 1970. During 1969, East Germany extended a credit of \$84 million to Iraq for goods and services covering the period 1969-74. Seventy percent of this credit may be repaid in oil, but it is unlikely that repayment will begin until the North Rumaila oilfield begins production (now scheduled for 1972).

17. Bulgaria concluded a trade agreement with Iran in 1967 providing for 2.3 million tons of crude oil imports during a four-year period but the Suez Canal closure delayed implementation until 1969. Shipments under this agreement may reach 1 million tons in 1970. Imports from Egypt (on Soviet account), Algeria, and Syria are expected to continue in 1970, but details on these agreements are unavailable.

18. Czechoslovakia and Hungary have concluded credit agreements with Iran and Iraq that permit repayment in oil. These two East European countries are landlocked, however, and the full effect of the agreements probably will not be realized until overland transport problems are solved. In November 1969 an agreement in principle was reached on extending a pipeline now under construction in Yugoslavia to Hungary, Czechoslovakia, and Poland. Financial arrangements appear to be the main obstacle to a final agreement. As presently proposed, the pipeline would provide an annual throughput capacity of about 5 million tons for Czechoslovakia and about 2 million tons each for Hungary and Poland. The earliest date for its completion would be 1974.

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Conclusions

19. The growth in petroleum demand in the Communist countries in 1969 probably exceeded the growth in petroleum production. As a consequence, oil exports to the Free World declined to about 50 million tons, 2.6 million tons less than in 1968. This decrease, all of which was accounted for by the USSR, represents the first drop in oil exports to the Free World since 1955. The drop in exports probably would have been greater if the USSR and the countries of Eastern Europe had not procured some 4 million tons of oil from the Free World.

20. There is no evidence to indicate any significant change in the quantity or pattern of Communist exports to the Free World in 1970. Communist imports of oil from Free World sources may increase to between 7 million and 8 million tons in 1970, compared with about 4 million tons in 1969.

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APPENDIX

Communist Exports of Petroleum to the Free World a/
1969

Destination ^{b/}	Thousand Metric Tons					Percent of Recipient's Demand
	Crude Oil from the USSR	Petroleum Products			Total Petroleum	
		From the USSR	From the East European Communist Countries	Total		
Total	24,730	17,100	8,000	25,100	49,830	6 ^{c/}
Western Europe	20,450	13,810	6,350	20,160	40,610	7
Austria	600	20	2,100	2,120	2,720	36
Belgium	--	1,200	150	1,350	1,350	6
Denmark	--	550	220	770	770	5
Finland	5,200	2,700	300	3,000	8,200	82
France	1,800	900	700	1,600	3,400	4
Iceland	--	400	--	400	400	67
Ireland	--	150	--	150	150	4
Italy	9,000	1,100	330	1,430	10,430	13
Netherlands	--	200	--	200	200	Negl.
Norway	--	400	50	450	450	7
Spain	250	--	40	40	250	1
Sweden	--	4,500	850	5,350	5,350	22
Switzerland	--	250	300	550	550	5
United Kingdom	--	40	10	50	50	Negl.
West Germany	3,600	1,400	1,300	2,700	6,300	5

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Thousand Metric Tons						
Destination b/	Petroleum Products			Total	Total Petroleum	Percent of Recipient's Demand
	Crude Oil from the USSR	From the USSR	From the East European Communist Countries			
Middle East	1,550	1,770	1,070	2,840	4,390	19
Cyprus	--	150	--	150	150	30
Egypt	900	650	450	1,100	2,000	25
Greece	650	600	300	900	1,850	24
Syria	--	120	270	390	390	21
Turkey	--	250	50	300	300	4
Africa	850	190	50	240	1,090	39
Ghana	300	--	--	--	300	46
Guinea	--	70	--	70	70	23
Morocco	550	--	--	--	550	35
Senegal	--	50	50	100	100	40
Somalia	--	70	--	70	70	93
Asia	1,700	1,180	240	1,420	3,120	2
Afghanistan	--	130	--	130	130	43
Ceylon	--	--	20	20	20	Negl.
India	--	400	70	470	470	3
Japan	1,700	650	150	800	2,500	2

Thousand Metric Tons						
Destination ^{b/}	Petroleum Products					Percent of Recipient's Demand
	Crude Oil from the USSR	From the USSR	From the East European Communist Countries	Total	Total Petroleum	
Latin America	180	60	10	70	250	Negl.
Argentina	--	--	10	10	10	Negl.
Brazil	180	60	--	60	240	1
North America	0	90	280	370	370	Negl.
Canada	--	20	30	50	50	Negl.
United States	--	70	250	320	320	Negl.

a. Preliminary estimates derived primarily from information on tanker movements and from Free World import data.

b. [] indicates a less developed country; all others are developed countries.

c. Percent of demand for countries listed, excluding the United States. 68% from Communist countries represented between 45 and 61% of total demand in the Free World, excluding the United States.

d. Not including Algerian oil received on Soviet account.